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AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES
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December 9, 2015

TO: Supervisor Hilda L. Solis, Chair
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: John Naimo
Auditor-Controller

SUBJECT: **BAYFRONT YOUTH & FAMILY SERVICES – A DEPARTMENT OF
MENTAL HEALTH SERVICE PROVIDER – FISCAL COMPLIANCE
REVIEW**

We completed a fiscal compliance review of Bayfront Youth & Family Services (Bayfront or Agency), which included a sample of billings from Fiscal Years (FY) 2013-14 and 2014-15. The Department of Mental Health (DMH) contracts with Bayfront to provide mental health services, including interviewing Program clients, assessing their mental health needs, and implementing treatment plans.

The purpose of our review was to determine whether Bayfront appropriately spent DMH Program funds. We also evaluated the adequacy of the Agency's financial records, internal controls, and compliance with their County contract and other applicable guidelines.

During FYs 2013-14 and 2014-15, DMH paid Bayfront approximately \$1.4 million each year, on a cost-reimbursement basis. The Agency provides services in the Fourth Supervisorial District.

Results of Review

Bayfront prepared their Cost Allocation Plan in compliance with their County contract. However, the Agency's bank reconciliations contained 59 checks totaling \$5,385 that were outstanding for more than a year, and the Agency allocated their indirect and shared costs based on payroll expenditures charged at pre-determined rates, not actual hours worked.

Bayfront's attached response indicates that they implemented an outstanding check policy to ensure checks are reconciled in a timely manner, and they will re-allocate indirect and shared costs using actual hours worked by Program.

In addition, Bayfront inappropriately charged DMH \$6,470. Specifically, Bayfront:

- Charged the DMH Program \$1,043 in FY 2013-14 for duplicate expenditures.

Bayfront's attached response indicates that they will reduce the FY 2013-14 DMH Cost Report by \$1,043.

- Charged the DMH Program \$1,234 in FY 2013-14 for purchasing three laptops that also benefited administration and other programs.

Bayfront's attached response indicates that they will reduce the FY 2013-14 DMH Cost Report by \$1,234.

- Charged the DMH Program \$4,193 in FY 2014-15 for gift cards and special events hosted for their Department of Children and Family Services Programs.

Bayfront's attached response indicates that they will reduce the FY 2014-15 DMH Cost Report by \$4,193.

Details of our review, along with recommendations for corrective action, are attached (Attachment I).

Review of Report

We discussed our report with Bayfront and DMH. Bayfront's attached response (Attachment II) indicates that they agree with our findings and recommendations. DMH management will work with Bayfront to ensure our recommendations are implemented.

We thank Bayfront management and staff for their cooperation and assistance during our review. If you have any questions please call me, or your staff may contact Don Chadwick at (213) 253-0301.

JN:AB:DC:EB:sk

Attachments

- c: Sachi A. Hamai, Chief Executive Officer
Robin Kay, Ph.D., Acting Director, Department of Mental Health
Dr. Craig Childress, Psy.D., Board Chair, Bayfront Youth & Family Services
Maryam Ribadu Jenkins, MBA, President/CEO, Bayfront Youth & Family Services
Public Information Office
Audit Committee

**BAYFRONT YOUTH & FAMILY SERVICES
DEPARTMENT OF MENTAL HEALTH
FISCAL COMPLIANCE REVIEW
FISCAL YEARS 2013-14 AND 2014-15**

CASH/REVENUE

Objective

Determine whether Bayfront Youth & Family Services (Bayfront or Agency) properly recorded revenue in their financial records, deposited cash receipts into their bank accounts timely, and if bank account reconciliations were reviewed and approved by Agency management timely.

Verification

We interviewed Bayfront personnel, and reviewed their financial records and January 2015 bank reconciliations for seven bank accounts.

Results

Bayfront properly recorded revenue in their financial records, deposited the Department of Mental Health (DMH) cash receipts timely, and bank reconciliations were reviewed and approved by Agency management timely. However, the Agency's bank reconciliations contained 59 checks totaling \$5,385 that were outstanding for more than a year. In addition, Bayfront did not have a policy in place for outstanding checks. The outstanding checks were related to a Department of Children and Family Services (DCFS) Program.

Recommendations

Bayfront Youth & Family Services management:

- 1. Ensure that reconciling items are resolved timely, and repay the Department of Children and Family Services for any unresolved outstanding checks.**
- 2. Establish a policy regarding aged outstanding checks.**

COST ALLOCATION PLAN/EXPENDITURES

Objective

Determine whether Bayfront's Cost Allocation Plan (Plan) complied with their County contract, and if expenditures billed to DMH were allowable, properly documented, and appropriately allocated as required by their County contract and related guidelines.

Verification

We reviewed the Agency's Plan and their financial records for 51 (18 DMH, 19 shared, and 14 indirect) non-payroll expenditures, totaling \$69,718 (\$28,753 DMH, \$31,589 shared, and \$9,376 indirect), charged to the DMH Program from July 2013 through January 2015.

Results

Bayfront prepared their Plan in compliance with their County contract. However, the Agency did not allocate their indirect and shared costs to all benefiting programs, and allocated their indirect and shared costs based on direct payroll costs, which included payroll expenditures charged at pre-determined rates, not based on actual hours worked. The Office of Management and Budget Circular A-122 (OMB Circular A-122) Attachment A, Section A.4 and the Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook) Section C.2.0, requires agencies to allocate shared costs equitably in accordance with the relative benefits received.

In addition, Bayfront inappropriately charged DMH \$6,470. Specifically, Bayfront:

- Charged the DMH Program \$1,043 in Fiscal Year (FY) 2013-14 for duplicate expenditures. The OMB Circular A-122 Attachment A, Section A.3 requires that expenditures be reasonable for the performance of the award, and the A-C Handbook Section A.2.3 states disbursement without supporting documentation is disallowed upon audit.
- Charged the DMH Program \$1,234 in FY 2013-14 for purchasing three laptops that also benefited administration and other programs. A portion of the \$1,234 should have been allocated to other programs as required by the A-C Handbook Section C.2.0.
- Charged the DMH Day Treatment Intensive Program \$3,513 in FY 2014-15 for bowling and carnival events hosted for their DCFS Programs. In addition, Bayfront did not provide a sign-in sheet for the bowling event, and documentation to support how these events were allowable and benefited the DMH or DCFS Programs as required by the A-C Handbook Section A.3.2.
- Charged the DMH cost pool \$680 in FY 2014-15 for gift cards purchased for a DCFS Program.

Recommendations**Bayfront Youth & Family Services management:**

3. **Re-allocate Fiscal Year 2014-15 indirect and shared costs allocated to the Department of Mental Health Program based on an allowable and**

equitable basis, reduce the Cost Report by over allocated amounts, and repay the Department of Mental Health any excess amounts received.

4. Reduce the Fiscal Year 2013-14 Cost Report by \$1,043, and repay the Department of Mental Health any excess amounts received.
5. Provide documentation to support or reduce the Fiscal Year 2013-14 Cost Report by \$1,234 and Fiscal Year 2014-15 Cost Report by \$4,193, and repay the Department of Mental Health any excess amounts received.
6. Allocate indirect costs to all benefiting programs.
7. Ensure that all expenditures are allowable and supported with adequate documentation.
8. Ensure that gift cards are purchased and disbursed for necessary and allowable purposes, and supported with adequate documentation.

FIXED ASSETS AND EQUIPMENT

Objective

Determine whether Bayfront's fixed assets and equipment purchased with DMH funds were used for the Program and adequately safeguarded.

Verification

We interviewed Bayfront personnel, and reviewed their fixed assets and equipment inventory list. We also performed a physical inventory of five items purchased with DMH funds to verify the items exist and were being used for the Program.

Results

Bayfront adequately safeguarded and used the items reviewed for the DMH Program.

Recommendation

None.

PAYROLL AND PERSONNEL

Objective

Determine whether Bayfront maintained personnel files as required and if payroll expenditures charged to DMH were allowable, properly documented, and appropriately allocated as required by their County contract and related guidelines.

Verification

We compared the payroll costs for 22 (seven DMH, ten shared, and five administrative) employees, totaling \$48,172 (\$24,074 DMH, \$17,974 shared, and \$6,124 administrative) for January 2015, to the Agency's payroll records and time reports. We also interviewed staff and reviewed personnel files for the 22 employees.

Results

Bayfront maintained their personnel files as required. However, Bayfront inappropriately allocated 13 shared and administrative employees' payroll and/or employee benefits costs based on pre-determined rates, not based on actual conditions. The OMB Circular A-122 Attachment A, Section D.3 requires that actual conditions should be taken into account when selecting the allocation bases. After our review, Bayfront re-allocated their shared employees' payroll and employee benefits costs based on actual time worked by program.

In addition, Bayfront paid three DMH and three shared employees \$119 more than their payroll rates in January 2015. Bayfront management indicated that the variance was due to shift differential pay paid to staff working after 3 p.m. regardless of the starting time. However, the Agency did not have a written policy to support the pay. After our review, Bayfront established a shift differential pay policy. According to their new policy, shift differential pay is paid to on-call youth counselors and nurses who work at least eight full hours during the afternoon or night shift. However, the Agency did not have documentation to support that the six employees were eligible to receive shift differential pay. The A-C Handbook B.3.3 requires agencies to not pay any salaries higher than those authorized.

Bayfront also did not ensure that timecards were signed by their employees. Specifically, four (18%) of the 22 timecards reviewed were not signed by the employees. The A-C Handbook A.3.2 requires that timecards are signed by the employee and the employee's supervisor to certify the accuracy of reported time.

Recommendations**Bayfront Youth & Family Services management:**

9. Review the Fiscal Years 2013-14 and 2014-15 payroll expenditures for shift differential pay, and reduce the Fiscal Years 2013-14 and 2014-15 Cost Reports by the amount paid for ineligible employees or employees who worked a daytime shift, and repay the Department of Mental Health any excess amounts received.
10. Ensure to reinforce their shift differential pay policy and pay only to those who are eligible and work in the afternoon or night shift.
11. Ensure that employees record actual hours worked each day for each program, and timecards are signed by the employee.

COST REPORT**Objective**

Determine whether Bayfront's FY 2013-14 DMH Cost Report reconciled to their financial records.

Verification

We compared the Agency's FY 2013-14 DMH Cost Report to their financial records.

Results

Bayfront's FY 2013-14 DMH Cost Report reconciled to their financial records.

Recommendation

None.



Bayfront Youth & Family Services

"Changing lives is what we do!"

Craig Chldress, Psy.D.
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October 27, 2015

County of Los Angeles
Auditor-Controller
John Naimo

Reference: Management Response Letter

After review of the final draft report of the fiscal compliance review for the Department of Mental Health for fiscal years 2013-2014 and 2014-2015. Please see the attached management response in regards to each finding.

Please feel free to contact me if you have any questions or concerns.

Best,

Maryam Ribadu Jenkins, MBA
President/CEO

562.595.8111 ext 221

Finding No. 1 Agency's bank reconciliations contained 59 checks totaling 5,385 that were outstanding more than a year. In addition, Bayfront did not have a policy in place for outstanding checks.

Recommendations:

Bayfront Youth & Family Services management:

- Ensure that reconciling items are resolved timely.
- Establish a policy regarding aged outstanding checks.

Management Response At the time the audit was conducted checks that were outstanding related to clients' trust funds that had been issued to the discharged clients but never cashed. Bayfront has attempted to locate the clients and their social workers to reissue the checks. Bayfront acknowledges that the outstanding items were not reconciled timely although bank reconciliations are conducted monthly. Bayfront has created and implemented an outstanding check policy and will continue to ensure that all checks are reconciled in a timely manner and that all checks outstanding more than 180 days are reconciled and reissued when possible. Bayfront has reconciled all outstanding checks identified in the finding, created a liability account and will send the money to the California State Controller Unclaimed Money division to hold for the clients by December 31, 2015.

Finding No 2. Agency allocated their indirect and shared costs based on direct payroll costs which included payroll expenditures charged at pre-determined rates, not actual hours worked. In addition, Bayfront inappropriately charged the DMH program \$6,470, in questioned costs. Specifically, Bayfront:

- Charged \$1,043 in FY 13-14 for duplicate expenditures.
- Charged \$1,234 in FY13-14 for purchasing three laptops that also benefited administration and other Programs instead of allocating the costs to the benefited Programs and required by the A-C Handbook Section C.2.0.
- Charged \$3,513 in FY14-15 to the DMH DTI Program for bowling and carnival events hosted for their Wraparound Approach Services and Group Home Programs. In addition, Bayfront did not provide sign in sheets for the bowling event and documentation to support how these events were allowable and benefitted DMH or DCFS programs as required by the A-C Handbook Section A.3.2.
- Charged \$680 in FY 2014-2015 to the DMH cost pool for purchasing gift cards purchased for the Wraparound Program without proper documentation to support how to it benefitted the DMH or Wraparound Program. In addition, Bayfront did not maintain adequate control over their gift cards. Their disbursement log did not contain adequate information, such as gift card serial number, assigned Program, distributor's name,

purchase and purpose of distribution to support that the gift cards were purchased and distributed for allowable and necessary program expenditures as required by the A-C Handbook Section A.3.2.

Recommendations:

Bayfront Youth & Family Services management:

- Re-allocate Fiscal Year 2014-2015 indirect and shared costs based on allowable and equitable basis, reduce the cost reports by the over allocated amounts and repay the Department of Children and Family Services and the Department of Mental Health by excess amounts received.
- Reduce the Fiscal Year Cost Report by 1,043 and repay the Department of Mental Health any excess amount received.
- Provide documentation to support or reduce the FY 2013-2014 Cost report by 1,234 and the FY 2014-2015 cost report by 4,193 and repay the Department of Mental Health any excess amounts paid.
- Allocate indirect costs to all benefitting programs
- Ensure that all expenditures are allowable and supported with adequate documentation
- Ensure that all gift cards are purchased and distributed for necessary and allowable purposes, and supported with adequate documentation.

Management Response --

- Bayfront Youth & Family Services acknowledges costs were incorrectly allocated using an inappropriately supported method at the time the audit was conducted. Agency has since revised their methodology to a basis that is both equitable and allowable. Agency will reallocate all indirect and shared costs for the first (3) quarters for FY 2014-2015 by December 31st. 2015. All 2014-2015 4th quarter costs were allocated using an allowable and equitable basis. Cost reports for the Department of Child and Family Services and the Department of Mental Health will be revised. The Semi-Annual Expenditure cost report for the Department of Children and Family Services will be revised once our annual audit is completed which is scheduled for February 2016.
- Bayfront acknowledges that that expenditures were charged twice for the same purchase due to a manual entry and a journal entry to allocate into the correct cost center. Bayfront will reduce the Fiscal Year cost report for 2013-2014 and book the 1,043 as an overpayment due and payable. Due to the fact that our financials for Fiscal Year 2013-

2014 are already closed and audited, an entry will be booked as an adjusting journal entry during our next audit scheduled to be completed by February 2016.

Moving forward Bayfront will closely review all revenues and expense on a monthly basis to ensure accuracy and that they are not duplicated.

- Bayfront acknowledges that proper documentation was not provided to support the expenditures charged to the DMH program and how they benefitted the program, the clients and tied back to the client plan of care or treatment plan. Bayfront will reduce the Fiscal Year cost report for 2013-2014 with the State of California and book the 1,234 as an overpayment. Due to the fact that our financials for Fiscal Year 2013-2014 are already closed and audited, an entry will be booked as an adjusting journal entry during our next audit scheduled to be completed by February 2016. Bayfront's 2014 - 2015 cost report has been submitted and accepted by LA County; however, Bayfront will amend the cost report with the State of California and book the 4,193 as an overpayment as an adjusting journal entry after completion of our annual audit scheduled to be completed by February 2016.

Moving forward all expenditures for client activities or incentives will be accompanied by a billable or non-billable note that provides linkage to the plan of care or treatment plan and a sign in sheet to support such expenditures.

- Bayfront will allocate all indirect costs using a supported methodology –direct salaries. Moving forward Bayfront will closely adhere to the agency's cost allocation plan.
- At the time the audit was conducted, Bayfront did not have a gift card policy that properly outlines the procedures of obtaining, safeguarding and disbursing gift cards. Bayfront has created and implemented a policy that addresses these issues, properly records the gift cards serial numbers, purpose, approval and reconciliation of. In addition, every gift card request will be adequately supported with proper documentation to link the need to the client treatment plan.

Bayfront would also like it to be noted that the agency has chosen to no longer use gift cards as incentives.

Finding No 3. Bayfront charged \$22,039 in questioned costs and did not always properly maintain required documentation in personnel files. Specifically, Bayfront:

- Allocated \$21,920 for 13 shared staff's payroll and/or employee benefits expenditures based on pre-determined rates not based on actual conditions.
- Four time cards reviewed were not signed by the employee.

- Paid three DMH and 3 shared staff employees \$119 more than their payroll rates in January 2015. Bayfront management indicated that the variance was due to the shift differential pay paid to staff working after 3pm regardless of the starting time. However, the Agency did not have a written policy to support the pay. After our review, Bayfront established a shift differential pay policy. According to their new policy, shift differential pay is paid to on-call youth counselors and nurses who work at least eight full hours during afternoon or night shift. However, the Agency did not have documentation to support that the six employees were eligible to receive shift differential pay.

Recommendations: Bayfront Youth & Family Services management:

- Review the Fiscal Years 2013- 2014- and 2014-2015 payroll expenditures for shift differential pay, and reduce the Fiscal Years 2013-2014 and 2014-2015 cost reports by the amounts paid for ineligible employees or employees who worked a daytime shift, and repay the Department of Mental Health for excess amounts paid
- Ensure that employee's record actual hours worked each day for each program and timecards are signed by the employee.
- Ensure to reinforce their shift differential pay policy and pay only those who are eligible and work in the afternoon and night shifts.

Management Response

- Bayfront acknowledges that at the time the audit was conducted actual hours worked were not properly recorded. However, the agency has corrected this allocation of hours and direct hours that benefit the program or other allowable methodology is now used and all timecards are supported by a time study or a direct hours billing report. All timecards are to be signed by employee, immediate supervisor, department manager and the Director of Finance or Operation before being accepted and processed.
- Bayfront acknowledges that there was no written shift differential policy at the time of audit and a new policy has since been created and enforced. However, Bayfront does not agree with recommendation to reduce the Fiscal Year 2013-2014 and 2014-2015 cost reports as the shift differential pay was grandfathered in at the time of Bayfront's inception and was offered to all employees at the 3pm mark. All payroll costs, including shift differential costs were approved and authorized by the CEO before processing. The new shift differential policy is clearly defined to specific employees that work a certain shift and will be adhered to.